



Interim
Deputy
Commissioner
Joseph McDermott

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Welcome, Joe McDermott

Division of Local Services

The Division of Local Services would like to welcome Joe McDermott as its interim Deputy Commissioner of Local Services and Director of Municipal Affairs.

Joe has been with the Department of Revenue for 29 years, holding a number of critical leadership positions in several divisions including Taxpayer Advocate, the Collections Bureau and the Problem Resolution Office. He most recently served as Deputy Commissioner of Audit.

Joe also has a deep local government background and currently serves as Vice Chair of the Town of Walpole's Finance Committee. He also previously held positions on the town's zoning board and as an elected town meeting member. We welcome Joe aboard and wish him all the best going forward.

Local Aid Impacts of 9C Reductions

Using his authority under [MGL c. 29, s. 9C](#), Governor Patrick has reduced various state appropriations to executive department agencies, including some minor reductions to cherry sheet appropriations. The Division of Local Services has reviewed these reductions and concluded that they will not impact previous cherry sheet estimates materially given the magnitude of the reductions and the normal variation in some of these accounts during the course of the year. Therefore, DLS will not be revising cherry sheet estimates as a result and does not anticipate that these reductions will impact the ongoing municipal tax rate setting process.

The Governor has also filed legislation seeking permission to reduce Unrestricted General Government Aid (UGGA) by \$25.5 million. This reduction will *not* take effect until it is approved by the Legislature.

For additional information regarding these reductions and related actions, click [here](#).

By the Numbers

In order to provide an update on the progress of the ongoing tax rate and certification season, below please find an overview of the ongoing process. The following information is accurate as of close of business on Tuesday, November 18th, 2014:

Preliminary Certifications: 82 Communities Approved (97 Submitted)

Final Certification: 48 Communities

La4/ New Growth: 214 Approved (271 Submitted)

Tax Rates: 80 Approved

Balance Sheets: 225 Approved

Aggregate Free Cash Approved Total: \$833,725,918

Ask DLS

This month's *Ask DLS* is a follow-up question on excess levy capacity. Please let us know if you have other areas of interest or send a question to cityandtown@dor.state.ma.us. We would like to hear from you.

I just read the *City & Town* publication titled "[Will Fiscal Prudence Grow with Excess Levy Capacity?](#)" It was very interesting. I have been researching excess levy and am trying to determine the pros/cons of excess levy and how much (if any) is too much. I understand that not having any levy capacity is not good because a town cannot handle sudden budget increases without an override but I was wondering the opposite. Does having too much excess levy negatively impact a town? Would a town get less state aid? Does it affect the awarding of grants?

There are several issues that might influence decisions about building excess levy capacity as a fiscal strategy. Among the factors that should be considered are the community's particular financial needs, the array of revenue sources available to fund services and the existence of accumulated reserve balances such as free cash and stabilization

funds. Excess levy capacity can be particularly useful when budgets increase since it represents a recurring revenue source that can be tapped in subsequent years as well. However, if an unexpected expense occurs after the annual tax rate is set, there is no way to access excess levy capacity and the community must rely on reserves on hand such as free cash and stabilization funds. Though excess levy capacity affords a community additional fiscal flexibility, it is best viewed within the context of a more comprehensive reserve policy. In situations where reserves are healthy and can be replenished each year, a strategy to lower property taxes and build excess levy may be more achievable. Despite general interest in reducing property taxes though, close to 60 percent of cities and towns have found this to be difficult to achieve given ongoing spending pressure and finite revenue.

You also ask whether substantial amounts of excess levy capacity will have a negative effect on a town's state aid or grant funding. In general, excess levy capacity has no impact on the amount of local aid received by a community since distribution formulas rely on property wealth and resident incomes. For example, the Chapter 70 education aid formula, which constitutes about 76 percent of all municipal cherry sheet aid, uses total property values and resident income levels to calculate a municipality's ability to pay for education and determine the corresponding amount of state aid. The equalized property values adjust for differences in local assessing practices and are produced every even numbered year by the Division of Local Services.

The other major local aid distribution is Unrestricted General Government Aid (UGGA). Together with Chapter 70 aid, these two programs account for about 95 percent of total municipal cherry sheet aid. Although funds have not been added to the UGGA account by formula since its creation in FY2010, previous reductions have been restored proportionately subject to the availability of funds. Much of the funding for the UGGA account was from the old lottery local aid account. The lottery formula used equalized property valuations and population to award new funds. So while there is no current distribution formula for UGGA, a formula that uses equalized value, population and perhaps income appear to be the most likely future formula options. Most of the remaining cherry sheet accounts reimburse municipalities for costs previously incurred such as property tax exemptions, veterans' benefits and foregone taxes on state-owned property. None of these payments are influenced by a community's excess levy capacity. We are also not aware of any grant funds that may be impacted negatively by excess levy capacity.

A Look at Post-Great Recession General Fund Spending

Tony Rassias - Deputy Director of Accounts

Nationally, from 2009 to 2013, Moody's has had a negative outlook on

the U.S. local government sector. Even as municipal finance officers reported that the fiscal condition of cities in 2013 was improving, Moody's continued its negative outlook "due to revenue constraints and expenditure demands." In early 2013, one Moody's senior analyst said, "Overall, the economic recovery remains sluggish despite some bright spots, and looming federal spending cuts may exacerbate weak growth rates."

In recent years, a national concern has been the increased number of bankruptcy filings and debt payment defaults. During 2013, Detroit, Michigan became the largest city in the country's history to file for bankruptcy protection under Chapter 9.

Introduction

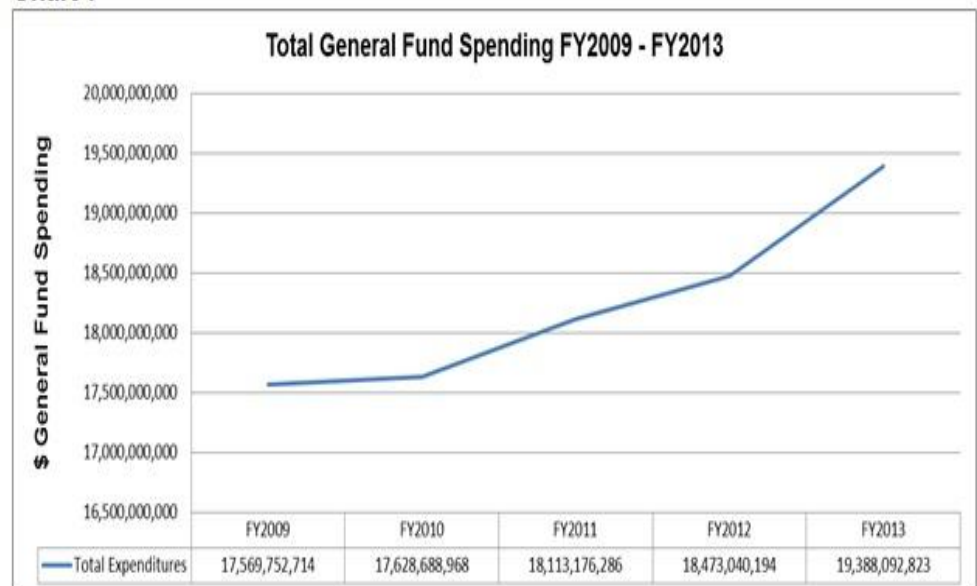
This article will report on General Fund municipal spending⁽¹⁾ by Massachusetts cities and towns from FY2009 to FY2013, the end of the post-Great Recession period to date. The General Fund is the largest of the municipal funds, accounts for the majority of municipal spending and represents outlays derived from the property tax levy, state aid and other locally generated revenue sources.

The data is compiled from Schedule A⁽²⁾, the annual report of revenues and expenditures submitted by municipal accounting officials to the Bureau of Accounts.

Total General Fund Spending

Chart 1 shows that total General Fund spending began this period at \$17.6 billion, remained about steady in FY2010 and then began a climb through FY2013.

Chart 1



Total General Fund Spending by Function

Table 1 shows General Fund spending in millions of dollars by function from FY2009 to FY2013. The table further shows that spending for Education remained the greatest in dollars through this period, followed by spending for Fixed Costs. Spending for Police which was third greatest in spending from FY2009 to FY2011, fell fourth to Debt Service in FY2012, but returned to third place in FY2013.

The greatest percentage increase from FY2009 to FY2013 was in Fixed Costs, followed by Intergovernmental then Education. The percentage for Other Expenditures was the only function category that decreased during this time period.

A review of the data behind the statistics reveals that Public Works, although neither the greatest dollar nor percentage change during this time period, had the greatest percentage changes between each fiscal year shown (down 19% from FY2009 to FY2010, up 9% from FY2010 to FY2011, down 13% from FY2011 to FY2012, up 32% from FY2012 to FY2013).

Fixed Costs include court judgments and employee benefits such as health insurance, retirement, unemployment comp and workers comp. Other Expenditures include expenditures which cannot be properly categorized into one of the specified functions.

Intergovernmental costs include any federal, state or other governmental assessments and charges. The high percentage increase in this category was mostly due to cherry sheet assessments for school choice and charter school sending tuition.

Table 1

Total General Fund Spending by Function FY2009 to FY2013							
Function	FY2009 (in \$ millions)	FY2010 (in \$ millions)	FY2011 (in \$ millions)	FY2012 (in \$ millions)	FY2013 (in \$ millions)	\$ Change FY2009 to FY2013 (in \$ millions)	% Change FY2009 to FY2013
General Government	920.1	903.9	932.0	903.1	995.2	75.1	8.2
Police	1,354.9	1,328.5	1,359.6	1,375.3	1,441.3	86.4	6.4
Fire	986.3	961.2	1,045.2	1,023.6	1,079.5	93.2	9.4
Other Public Safety	228.4	224.0	224.1	229.1	243.2	14.8	6.5
Education	8,433.9	8,618.5	8,718.4	8,987.8	9,349.8	915.9	10.9
Public Works	1,107.3	896.6	977.5	854.8	1,128.2	20.9	1.9
Human Services	290.4	292.6	294.6	304.0	314.4	24.0	8.3
Culture and Recreation	361.9	352.2	353.9	360.7	382.1	20.2	5.6
Debt Service	1,266.7	1,308.5	1,287.0	1,394.9	1,349.4	82.7	6.5
Fixed Costs	2,018.0	2,139.8	2,297.0	2,379.8	2,411.2	393.2	19.5
Intergovernmental	562.1	578.3	588.7	627.6	657.2	95.1	16.9
Other Expenditures	39.9	24.6	35.2	32.3	36.7	-3.2	-8.0
Total Expenditures	17,569.9	17,628.7	18,113.2	18,473.0	19,388.2	1,818.3	10.3

Source: DLS Data Bank (totals may be slightly overstated due to rounding)

Percentages of Spending by Function

Table 2 shows that as a percentage of total spending per fiscal year,

both Education and Fixed Costs spent the greatest for the fiscal years shown. It is interesting to note that most percentages for these function categories remained about steady despite increases in total spending shown in **Table 1**. The exceptions appear in Public Works, Debt Service and Fixed Costs.

Table 2

Percentages of General Fund Spending by Function FY2009 to FY2013					
Function	FY2009 % of Total Spending	FY2010 % of Total Spending	FY2011 % of Total Spending	FY2012 % of Total Spending	FY2013 % of Total Spending
General Government	5.2	5.1	5.1	4.9	5.1
Police	7.7	7.5	7.5	7.4	7.4
Fire	5.6	5.5	5.8	5.5	5.6
Other Public Safety	1.3	1.3	1.2	1.2	1.3
Education	48.0	48.9	48.1	48.7	48.2
Public Works	6.3	5.1	5.4	4.6	5.8
Human Services	1.7	1.7	1.6	1.6	1.6
Culture and Recreation	2.1	2.0	2.0	2.0	2.0
Debt Service	7.2	7.4	7.1	7.6	7.0
Fixed Costs	11.5	12.1	12.7	12.9	12.4
Intergovernmental	3.2	3.3	3.3	3.4	3.4
Other Expenditures	0.2	0.1	0.2	0.2	0.2
Total Expenditures	100.0	100.0	100.0	100.0	100.0

Spending Per Capita⁽³⁾ and by Function

Table 3 shows that total General Fund spending per capita increased from \$2,729 in FY2009 to \$2,961 in FY2013. The only reduction in spending per capita was between FY2009 and FY2010.

By function, the Table shows that each category except Other Expenditures increased from FY2009 to FY2013. Eight function categories, however, had a decrease in per capita spending at least once during this time period.

Table 3

General Fund Spending Per Capita and by Function FY2009 to FY2013					
Function	FY2009 \$ Spending Per Capita	FY2010 \$ Spending Per Capita	FY2011 \$ Spending Per Capita	FY2012 \$ Spending Per Capita	FY2013 \$ Spending Per Capita
General Government	143	140	143	137	152
Police	210	205	209	209	220
Fire	153	149	160	155	165
Other Public Safety	35	35	34	35	37
Education	1310	1332	1337	1363	1428
Public Works	172	139	150	130	172
Human Services	45	45	45	46	48
Culture and Recreation	56	54	54	55	58
Debt Service	197	202	197	212	206
Fixed Costs	313	331	352	361	368
Intergovernmental	87	89	90	95	100
Other Expenditures	6	4	5	5	6
Total Expenditures	2,729	2,724	2,778	2,802	2,961

General Fund Spending Per Capita and by Population

Table 4 shows that total General Fund spending per capita and by population increased from FY2009 to FY2013. Three population categories, however, had a decrease in spending per capita in at least one fiscal year during this time period. It shows that spending was consistently greatest in the 2,000 to less than 5,000 population category. Spending in the other categories during this time period only reached \$3,000 per capita in FY2013 for the 10,000 to <20,000 population category.

A review of the data behind these results reveals that several communities in the 2,000 to less than 5,000 population category have exceptionally high spending per capita amounts and are located on Cape Cod and the Islands.

TABLE 4

General Fund Spending Per Capita and by Population FY2009 to FY2013					
Population	FY2009 \$ Spending Per Capita	FY2010 \$ Spending Per Capita	FY2011 \$ Spending Per Capita	FY2012 \$ Spending Per Capita	FY2013 \$ Spending Per Capita
>50K	2,828	2,779	2,832	2,828	2,966
20k to <50k	2,646	2,653	2,710	2,749	2,921
10k to <20k	2,719	2,771	2,797	2,848	3,013
5k to <10k	2,572	2,583	2,674	2,721	2,860
2k to <5k	3,023	3,016	3,146	3,115	3,407
<2k	2,442	2,418	2,463	2,491	2,782
Total	2,729	2,724	2,778	2,802	2,961

Additional Note

In December of 2013, Moody's revised its outlook for the U.S. local government sector from negative to stable meaning that conditions are not getting worse and that credit risks are more "visible and predictable."

1.) General Fund spending does not include appropriations transferred out of the General Fund for expenditure by another fund.

2.) The report includes Schedule A data from 350 communities only between FY2010 and FY2013.

3.) Per capita spending applies the population data used in the particular fiscal years to distribute cherry sheet aid.

November Municipal Calendar

November 1	Taxpayer	Semi-Annual Tax Bill - Deadline for First Payment According to MGL Ch. 59, Sec. 57, this is the deadline for receipt of the first half semi-annual tax bills or the optional preliminary tax bills without interest, unless bills were mailed after October 1, in which case they are due 30 days after mailing.
November 1	Taxpayer	Semi-Annual Tax Bills - Application Deadline for Property Tax Abatement According to M.G.L. Ch. 59, Sec. 59, applications for abatements are due on the same date as the first actual tax installment for the year.
November 1	Taxpayer	Quarterly Tax Bills Deadline for Paying 2nd Quarterly Tax Bill Without Interest
November 1	Treasurer	Deadline for Payment of First Half of County Tax
November 15	DESE	Notify Communities/Districts of Any Prior Year School Spending Deficiencies By this date, or within 30 days

		of a complete End of Year Report (see September 30), DESE notifies communities/districts in writing of any additional school spending requirements.
November 30	Selectmen/Mayor	Review Budgets Submitted by Department Heads This date will vary depending on dates of town meeting.
Final Day of Each Month	State Treasurer	Notification of monthly local aid distribution. Click www.mass.gov/treasury/cash-management to view distribution breakdown.
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